



**MWD**

*METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA*

**Executive Financial Report  
For the Six Months Ended December 31, 2006**

**Executive Financial Report**  
**Table of Contents**  
**For the Six Months Ended December 31, 2006**

<b>Schedule</b>	<b>Page No.</b>
<b>Current vs. Prior Year – Accrual Basis</b>	
<b>Summary</b>	<b>1</b>
<b>Statements of Operations</b>	<b>2</b>
<b>Balance Sheets</b>	<b>3</b>
<b>Cash and Investments</b>	<b>4</b>
<b>Estimate vs. Actual – Accrual Basis</b>	
<b>Summary</b>	<b>5</b>
<b>Statement of Operations</b>	<b>6</b>
<b>O&amp;M, Cost of Water and Capital Investment Plan</b>	<b>7</b>
<b>O&amp;M Fixed and Variable</b>	<b>8</b>
<b>Construction Activities</b>	<b>9</b>
<b>Eligibility of Securities</b>	<b>10</b>

## **Executive Financial Report for the Six Months Ended December 31, 2006**

A summary of the accrual basis statement of operations activity for the six months ended December 31, 2006 as well as the changes in the balance sheet for December 2006 is discussed below.

### **Statements of Operations (page 2)**

Net Income of \$156.6 million was \$18.7 million more than the prior year's net income of \$137.9 million. Included in the variance were higher operating revenues of \$8.0 million and other expenses-net of \$16.5 million, partially offset by higher operating expenses of \$5.8 million. These items are further described below.

Operating revenues for the six months ended December 31, 2006 totaled \$549.7 million, which was \$8.0 million more than prior year operating revenues of \$541.7 million. The increase was primarily due to \$6.9 million higher water sales, of which \$4.9 million related to higher prices and \$2.0 million was due to higher volumes.

Operating expenses for the six months ended December 31, 2006 totaled \$429.9 million, which were \$5.8 million more than prior year operating expenses of \$424.1 million. The increase was due primarily to \$12.0 million of higher O&M costs, of which \$8.9 million related to the accrual of the other postemployment benefits in the current period and recorded in June 2006 for the prior fiscal year. Partially offsetting, the higher O&M costs was \$8.2 million lower cost of water due to more credits in the current year for State Water Contract prior year adjustments.

Other income-net of \$36.8 million was \$16.5 million more than prior year other income-net. This increase was due primarily to \$16.3 million higher investment income of which \$15.3 million resulted from the change in fair value adjustment.

### **Balance Sheets (page 3)**

At December 31, 2006, assets totaled \$10.5 billion, which were \$294.0 million higher than December 31, 2005. Property, plant and equipment-net was \$489.3 million higher due to construction progress on the Oxidation Retrofit programs, Treatment Plant Improvement programs, Inland Feeder, Skinner Filtration Plant Expansion 4, and San Diego Pipeline No. 6. Partially offsetting the increased property, plant and equipment, was a reduction in cash and investments of \$218.5 million due primarily to construction expenditures.

Liabilities totaled \$4.9 billion at December 31, 2006, which were \$214.0 million more than December 31, 2005. This increase was due primarily to a \$232.4 million net increase in long-term debt. The net increase in long-term debt was due to \$300.0 million of revenue bonds issued August 2006, partially offset by principal paydowns, refundings and cash defeasances of debt.

# The Metropolitan Water District of Southern California

## Statements of Operations - Accrual Basis (Dollars in millions)

	For the Six Months Ended December 31,		Favorable/ (Unfavorable) Variance
	2006	2005	
<b>Operating Revenues:</b>			
Water Sales	\$ 473.3	\$ 466.4	\$ 6.9
Wheeling / Exchange	5.2	3.9	1.3
Readiness-to-Serve	40.0	40.0	(0.0)
Capacity Charge	16.1	15.9	0.3
Power Sales	15.0	15.4	(0.4)
Total Operating Revenues	<b>549.7</b>	541.7	8.0
<b>Operating Expenses:</b>			
Cost of Water	148.7	156.9	8.2
Operations & Maintenance	157.4	145.4	(12.0)
Water Management Programs, Net	20.7	18.4	(2.3)
Depreciation & Amortization	103.1	103.4	0.3
Total Operating Expenses	<b>429.9</b>	424.1	(5.8)
<b>Net Operating Income</b>	<b>119.8</b>	117.6	2.2
<b>Other Income (Expense):</b>			
Net Taxes/Annexations	49.5	50.3	(0.8)
Investment Income <sup>(1)</sup>	33.9	17.6	16.3
Bond Interest Expense	(45.3)	(48.7)	3.4
Other	(1.2)	1.2	(2.4)
Total Other Income - Net	<b>36.8</b>	20.3	16.5
<b>Net Income</b>	<b>\$ 156.6</b>	\$ 137.9	\$ 18.7

**Sales Statistics** (average prices calculated using exact rather than rounded dollar amounts):

Water Sales (TAF)	1,208.2	1,199.8	8.5
Wheeling/Exchange (TAF)	20.0	15.2	4.9
Power Sales (mWh)	291.0	268.4	22.6
<b>Average Sales Price</b>			
Water Sales	\$ 391.76	\$ 388.78	\$ 2.98
Wheeling/Exchange	\$ 258.10	\$ 258.36	\$ (0.26)
Power Sales	\$ 0.05	\$ 0.06	\$ (0.01)

**Ratios:**

Operating (Operating Expense\* divided by Operating Revenue) 59.5 %      59.2 %

\* Excludes depreciation and amortization expense.

Revenue Bond Debt Service Coverage (rolling 12 months) - Cash Basis

(Net receipts divided by annual revenue bond principal and interest requirements) 1.77 x      2.06 x

**Notes:**

(1) Includes fair value adjustment of \$10.3 million and (\$5.0) million at December 31, 2006 and 2005, respectively.

Totals may not foot / cross foot due to rounding.

# The Metropolitan Water District of Southern California

## Balance Sheets - Accrual Basis (Dollars in millions)

	December 31,		<i>Increase/ (Decrease)</i>
	2006	2005	
<b>Assets:</b>			
Cash and investments at book value <sup>(1)</sup>	\$ 1,082.0	\$ 1,300.6	\$ (218.5)
Fair Value Adjustment	2.2	(0.6)	2.7
Accounts Receivable	268.5	257.4	11.1
Property, Plant and Equipment, net	6,882.8	6,393.5	489.3
Prepaid State Water Project Entitlements, net	1,589.9	1,622.7	(32.8)
Participation Rights, net	264.3	257.5	6.8
Deferred Charges and Water Rights	328.2	303.2	25.0
Other	104.5	94.2	10.3
<b>Total Assets</b>	<b>\$ 10,522.5</b>	<b>\$ 10,228.5</b>	<b>\$ 294.0</b>
<b>Liabilities and Equity:</b>			
Long-Term Debt	\$ 4,129.6	\$ 3,897.2	\$ 232.4
Off-Aqueduct Power Facilities	76.6	85.2	(8.6)
Accounts Payable and Accrued Bond Interest	132.6	161.7	(29.1)
Deferred Income	102.6	97.5	5.1
State Water Project Obligations	371.3	355.1	16.1
Trust Funds and Other	80.5	82.4	(1.9)
<b>Total Liabilities</b>	<b>4,893.1</b>	<b>4,679.1</b>	<b>214.0</b>
<b>Equity</b>	<b>5,629.3</b>	<b>5,549.4</b>	<b>80.0</b>
<b>Total Liabilities and Equity</b>	<b>\$ 10,522.5</b>	<b>\$ 10,228.5</b>	<b>\$ 294.0</b>

Debt as a percent of equity (Long-Term Debt divided by Equity) 73.4 %                      70.2 %

(1) Fair value of cash and investments was \$1,084.2 million and \$1,300.0 million at December 31, 2006 and 2005, respectively.

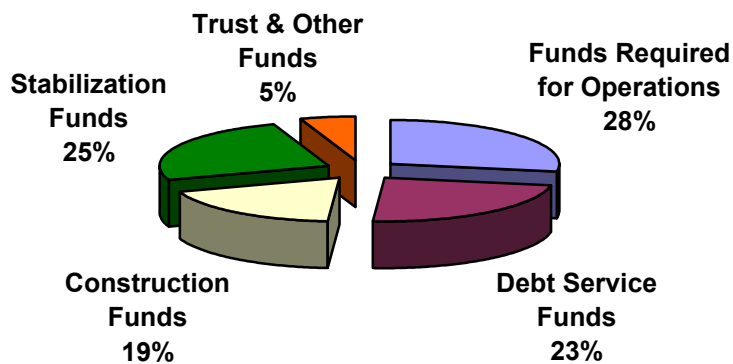
Certain reclassifications of prior year amounts have been made to conform to current year's presentation.

Totals may not foot / cross foot due to rounding.

# The Metropolitan Water District of Southern California

## Cash and Investments at Book Value As of December 31, 2006 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 168.7	\$ 131.6	\$ 0.6	\$ 300.9
Debt Service Funds	251.4	-	-	251.4
Construction Funds	166.1	-	36.8	202.9
Stabilization Funds	-	-	270.8	270.8
Trust & Other Funds	38.2	17.8	-	56.0
<b>Total</b>	<b>\$ 624.4</b>	<b>\$ 149.4</b>	<b>\$ 308.2</b>	<b>\$ 1,082.0</b>



## **Executive Financial Report for the Six Months Ended December 31, 2006 Actual to Estimate**

A summary of accrual basis operations and construction activity for the six months ended December 31, 2006 compared to estimate for the same period is discussed below.

### **Actual vs. Estimate (page 6)**

Operating revenues of \$549.7 million were \$34.7 million higher than the \$515.0 million estimate, due primarily to \$31.5 million of higher than estimated water sales. Water sales volumes totaled 1,208.2 thousand acre-feet (TAF), or 81.6 TAF more than the estimate of 1,126.6 TAF.

Operating expenses of \$429.9 million were \$31.0 million less than the \$460.9 million estimate primarily due to \$20.2 million lower cost of water and \$12.0 million less in O&M costs. The lower cost of water was due to \$11.8 million more in State Water Contract credits for prior year adjustments and lower than expected power costs. O&M was lower than expected as \$5.0 million of operating equipment budgeted for December was delayed until later in the fiscal year and water treatment costs were \$2.1 million less than estimate.

Other income-net totaling \$36.8 million was \$22.3 million more than estimate due primarily to \$16.1 million of higher than anticipated investment income. Included in the higher investment income was \$10.3 million of fair value adjustment, which was not part of the estimated amount.

### **Construction Activity (page 9)**

Construction costs for the six months ended December 31, 2006 totaled \$262.7 million, which was \$29.3 million, or 10 percent, under estimate. Perris Valley pipeline was \$25.8 million less than estimate due to a change in the project delivery approach. Fiscal year costs are expected to be substantially under the original estimate. The Oxidation Retrofit Programs (ORP) were \$8.0 million less than estimate due primarily to timing of work performed. By year-end, the ORP's are expected to be substantially on estimate. Skinner Expansion No. 4 was \$2.6 million less than estimate due to timing of work performed; but is expected to be substantially on estimate by year-end. Partially offsetting these favorable variances was Inland Feeder, which was \$13.4 million over estimate due to higher re-negotiated costs and is expected to be over estimate by \$24.2 million at year-end. Total Construction costs are projected to be \$496.0 million by year-end.

The Metropolitan Water District of Southern California

Statement of Operations - Accrual Basis  
Estimate vs. Actual  
For the Six Months Ended December 31, 2006  
(Dollars in millions)

	Estimate to Date	Actual to Date	Favorable/ (Unfavorable) Variance		Fiscal Year End			
					Annual	Projected	Favorable/ (Unfavorable) Variance	
			\$	%	Estimate	Year-End	\$	%
<b>Operating Revenues</b>								
Water Sales	\$ 441.8	\$ 473.3	\$ 31.5	7%	\$ 858.4	\$ 876.9	\$ 18.5	2%
Wheeling/Exchange	5.2	5.2	0.0	0%	15.0	14.4	(0.6)	(4%)
RTS	40.0	40.0	-	0%	80.0	80.0	-	0%
Capacity Charge	16.3	16.1	(0.2)	(1%)	32.6	32.6	-	0%
Power Sales	11.7	15.0	3.3	29%	22.7	39.3	16.6	73%
<b>Total Operating Revenues</b>	<b>515.0</b>	<b>549.7</b>	<b>34.7</b>	<b>7%</b>	<b>1,008.7</b>	<b>1,043.2</b>	<b>34.5</b>	<b>3%</b>
<b>Operating Expenses</b>								
Operations & Maintenance	169.4	157.4	12.0	7%	344.2	344.2	-	0%
Cost of Water	168.9	148.7	20.2	12%	338.9	327.1	11.8	3%
Water Mgt. Programs	18.8	20.7	(2.0)	(11%)	37.8	37.8	-	0%
Depreciation & Amortization	103.9	103.1	0.8	1%	207.8	207.8	-	0%
<b>Total Operating Expenses</b>	<b>460.9</b>	<b>429.9</b>	<b>31.0</b>	<b>7%</b>	<b>928.7</b>	<b>916.9</b>	<b>11.8</b>	<b>1%</b>
<b>Operating Income</b>	<b>54.1</b>	<b>119.8</b>	<b>65.7</b>	<b>122%</b>	<b>80.0</b>	<b>126.3</b>	<b>46.3</b>	<b>58%</b>
<b>Other Income/(Expense)</b>								
Net Taxes/Annexations	49.3	49.5	0.3	1%	98.5	98.5	-	0%
Investment Income	17.8	33.9 <sup>(1)</sup>	16.1	90%	35.6	35.6	-	0%
Bond Interest Expense	(51.8)	(45.3)	6.4	12%	(103.5)	(101.0)	2.5	2%
Other	(0.8)	(1.2)	(0.5)	61%	(1.5)	(1.5)	-	0%
	14.6	36.8	22.3	153%	29.1	31.6	2.5	9%
<b>Net Income</b>	<b>\$ 68.6</b>	<b>\$ 156.6</b>	<b>\$ 88.0</b>	<b>128%</b>	<b>\$ 109.1</b>	<b>\$ 157.9</b>	<b>\$ 48.8</b>	<b>45%</b>
<b>Sales Statistics:</b>								
Water Sales (TAF)	1,126.6	1,208.2	81.6	7%	2,157.4	2,189.4	32.0	1%
Wheeling Sales (TAF)	20.0	20.0	0.0	0%	58.0	55.7	(2.3)	(4%)

Notes:

(1) Includes fair value adjustment of \$10.3 million not included in estimate.

Totals may not foot / cross foot due to rounding.



# The Metropolitan Water District of Southern California

## Estimate vs. Actual - Accrual Basis (Dollars in millions) For the Six Months Ended December 31, 2006

	Estimate to Date	Actual to Date	Favorable/ (Unfavorable) Variance	
			\$	%
<b>Operations &amp; Maintenance</b>				
<b>Fixed</b>				
Personnel	\$ 114.9	\$ 114.2	\$ 0.7	1%
Materials & Supplies	6.8	7.4	(0.7)	(10%)
Professional Services	7.9	8.3	(0.4)	(5%)
Outside Non-Professional Services	8.1	7.4	0.7	8%
Other	9.0	(0.0)	9.0	100%
<b>Total Fixed</b>	<b>146.6</b>	<b>137.3</b>	<b>9.3</b>	<b>6%</b>
<b>Variable</b>				
Water Treatment Chemicals	14.7	12.6	2.1	15%
Utility Costs	8.1	7.6	0.5	6%
<b>Total Variable</b>	<b>22.8</b>	<b>20.1</b>	<b>2.7</b>	<b>12%</b>
<b>Total Operations &amp; Maintenance</b>	<b>\$ 169.4</b>	<b>\$ 157.4</b>	<b>\$ 12.0</b>	<b>7%</b>
<b>Cost of Water</b>				
Cost of Water	\$ 174.9	\$ 166.5	8.4	5%
SWP Prior Year Adjustments	(6.0)	(17.8)	11.8	(197%)
<b>Total</b>	<b>\$ 168.9</b>	<b>\$ 148.7</b>	<b>\$ 20.2</b>	<b>12%</b>
<b>Capital Investment Plan</b>	<b>\$ 292.1</b>	<b>\$ 262.7</b>	<b>\$ 29.3</b>	<b>10%</b>

Totals may not foot / cross foot due to rounding.

# The Metropolitan Water District of Southern California

## Operations and Maintenance Fixed and Variable Components - Accrual Basis Estimate vs. Actual Six Months Ended December 31, 2006 (Dollars in millions)

Component	Estimate to Date	Actual to Date	<i>Favorable/ (Unfavorable)</i> <i>Variance</i>	
			\$	%
<b>Fixed</b>				
Personnel	\$114.9	\$114.2	\$0.7	1%
Professional Services	7.9	8.3	(0.4)	(5%)
Outside Non-Professional Services	8.1	7.4	0.7	8%
Materials & Supplies	6.8	7.4	(0.7)	(10%)
Communications Expense	1.7	1.5	0.2	12%
Travel Expense	1.0	1.0	(0.0)	(3%)
Training	0.5	0.2	0.2	52%
Memberships & Subscriptions	1.1	1.3	(0.1)	(11%)
Equipment Expensed	5.6	0.6	5.0	89%
Equipment Rents/Leases	0.5	0.5	0.0	4%
Insurance	2.8	1.6	1.3	45%
Agency Dues	2.2	1.8	0.4	19%
Rents/Leases	0.2	0.2	0.1	27%
Overhead Credit from Construction	(9.1)	(10.6)	1.5	(16%)
Other	2.5	2.0	0.5	19%
<b>Total Fixed Costs</b>	<b>146.6</b>	<b>137.3</b>	<b>9.3</b>	<b>6%</b>
<b>Variable</b>				
Water Treatment Chemicals	14.7	12.6	2.1	15%
Utility Costs:				
Utilities	5.2	5.0	0.2	4%
Sludge Removal	2.1	1.8	0.3	14%
Permits	0.8	0.8	0.0	2%
<b>Total Variable Costs</b>	<b>22.8</b>	<b>20.1</b>	<b>2.7</b>	<b>12%</b>
<b>Total O&amp;M</b>	<b>\$169.4</b>	<b>\$157.4</b>	<b>\$12.0</b>	<b>7%</b>
<b>Water Sales - Thousand Acre-Feet</b>	<b>1,126.6</b>	<b>1,208.2</b>	<b>81.6</b>	<b>7%</b>

Totals may not foot / cross foot due to rounding.

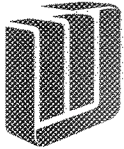
The Metropolitan Water District of Southern California

Estimate vs. Actual: Construction Activities - Accrual Basis  
For the Six Months Ended December 31, 2006  
(Dollars in millions)

	Estimate	Actual	Variance from Estimate		Fiscal Year	Projected	Variance from Estimate		
	to Date	to Date	\$	%	Estimate	Year-End	\$	%	
<b>Sources of Funds</b>									
Bond Construction Funds	\$ 206.2	\$ 204.3	\$ 1.9	1%	\$ 396.2	\$ 350.1	\$ 46.1	12%	
R & R/General Funds	85.9	58.5	27.4	32%	165.1	145.9	19.2	12%	
<b>Total</b>	<b>\$ 292.1</b>	<b>\$ 262.7</b>	<b>\$ 29.3</b>	<b>10%</b>	<b>\$ 561.3</b>	<b>\$ 496.0</b>	<b>\$ 65.3</b>	<b>12%</b>	
<b>Program Expenditures</b>									
Oxidation Retrofit Programs	\$ 88.3	\$ 80.3	\$ 8.0	9%	\$ 171.0	\$ 170.0	\$ 1.0	1%	
Treatment Plant Improvement	54.2	52.4	1.9	3%	90.6	88.0	2.6	3%	
Perris Valley Pipeline	26.9	1.1	25.8	96%	51.8	6.0	45.8	88%	
Inland Feeder	26.5	39.9	(13.4)	(51%)	51.8	76.0	(24.2)	(47%)	
Skinner Filtration Plant Expansion No. 4	19.1	16.4	2.6	14%	31.7	30.0	1.7	5%	
Chlorine Containment and Handling Facilities	12.8	14.8	(2.1)	(16%)	31.0	25.0	6.0	19%	
Diemer - Solids Handling/Water Reclamation	9.5	9.6	(0.2)	(2%)	15.1	13.0	2.1	14%	
Distribution System - Rehabilitation Program	5.2	6.7	(1.6)	(31%)	13.6	11.0	2.6	19%	
Diamond Valley Lake Recreation	7.1	8.7	(1.6)	(22%)	13.4	13.0	0.4	3%	
CRA - Reliability/Containment Programs	3.9	3.1	0.8	21%	9.8	8.0	1.8	18%	
Other	38.6	29.7	8.9	23%	81.4	56.0	25.4	31%	
<b>Total</b>	<b>\$ 292.1</b>	<b>\$ 262.7</b>	<b>\$ 29.3</b>	<b>10%</b>	<b>\$ 561.3</b>	<b>\$ 496.0</b>	<b>\$ 65.3</b>	<b>12%</b>	

Major Program Statistics

	Current	Project-		
	Program	to-Date	%	%
	Estimate	Dec. 06	Spent	Complete
Inland Feeder	\$ 1,186.5	\$ 908.9	77%	82%
Oxidation Retrofit Program	901.0	428.5	48%	48%
Treatment Plant Improvement Projects	505.4	142.4	28%	31%
Chlorine Containment and Handling Facilities	163.8	44.4	27%	34%
CRA - Reliability/Containment Programs	161.2	64.2	40%	46%
Skinner Expansion No. 4	147.0	111.5	76%	79%
Diamond Valley Lake Recreation	97.5	60.1	62%	62%




**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**Date:** January 9, 2007  
**To:** Board of Directors  
**From:** Interim General Counsel  
**Subject:** Review as to Eligibility of Securities Invested in by the  
Treasurer for the Month of December 2006

Pursuant to Sections 2741(a) and 5101(b)(5) of the Administrative Code, this office has examined the Treasurer's Monthly Report to the Board for the month of December 2006 covering the investment of securities for that period. The reported forms of investment are within the eligible group of securities authorized by Section 5101(b)(2) of the Administrative Code, and as of the end of the month are within the percentage constraints specified in that section. For purposes of this letter, we have not undertaken to independently verify the accuracy of the information submitted by the Treasurer to this office.

  
Sydney B. Bennion

cc: T. E. DeBacker  
J. Kightlinger  
R. N. Marumoto  
B. G. Thomas